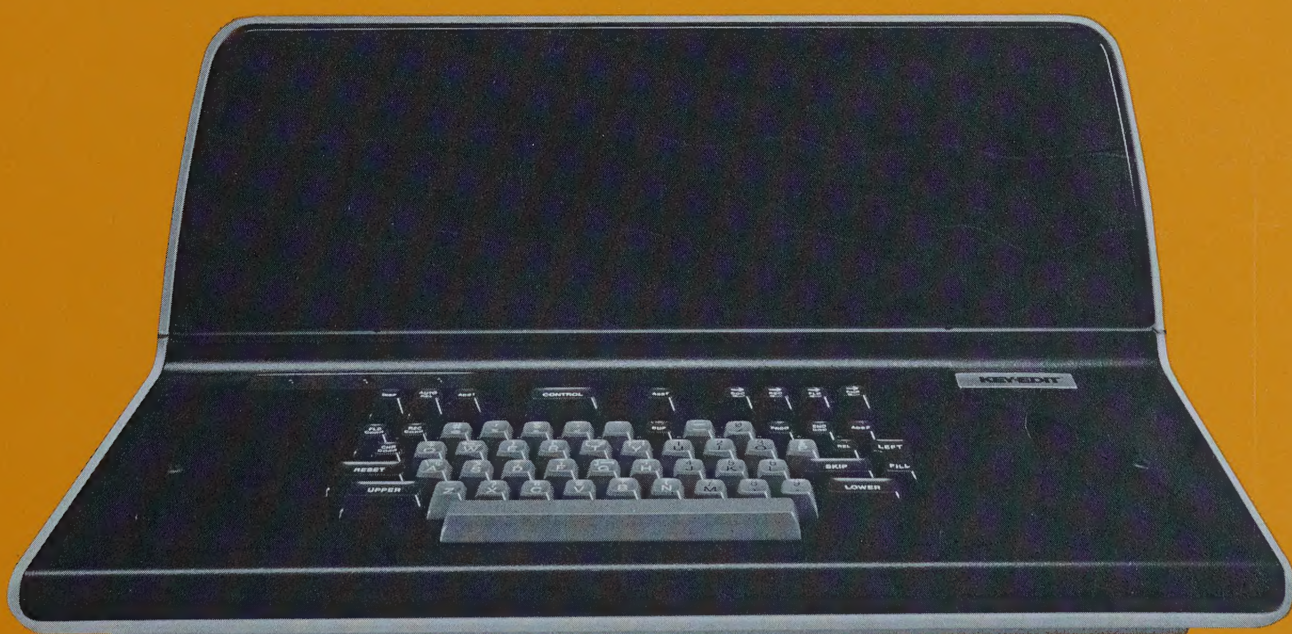
CONSOLIDATED COMPUTER INC.

Annual Report 1975



On the Cover
Consolidated Computer Inc. data entry terminal.

Report to Shareholders

Revenue from sales, rentals and services for the year ended December 31, 1975 were $15,809,000 compared to $15,395,000 in 1974. The loss for the year was $12,876,184. The Company had intended to record its leases as outright sales to a leasing company under a non-recourse sale agreement for the year 1975. These arrangements were not completed at year end and as a result only leasing income has been recorded as revenue.

The growth in volume of business from North American sources expected in 1975 failed to materialize, and as a result the Company had to curtail its manpower from 700 employees to approximately 420 at year end.

The lower revenues in turn caused problems in cost efficiencies and inventories. Major adjustments have been reflected in the year end results including provision for obsolescence and surplus inventories.

During the year, the Company increased its authorized capital to 20 Million no par value common shares. These shares will be used to carry out an agreement with Ontario and Federal Governments to convert approximately $21 Million of various debt instruments to equity at a conversion rate of $1.50 per common share.

Subsequent Events: On January 28, 1976 senior officers of Central Dynamics Ltd. of Montreal were elected officers and directors of CCI. This management change was implemented as an initial step for CDL to acquire an interest in CCI and to merge certain CDL activities in the CCI's operation. This change will serve to strengthen CCI's operations and broaden its product line into communications products.

Essential to the success of CCI is the continued support of the Federal and Ontario Governments. Arrangements for an increased line of credit of $5,000,000 have been negotiated by management. The Federal Government has agreed to provide the guarantee required to obtain such financing.

1976 will be a year of retrenchment for CCI. Efforts to optimize the financial performance of the current KEY-EDIT products has been underway for several months. Initial planning for new product development has been completed and new computer products will be introduced in the market place in 1977.

The management wish to thank its employees, customers and suppliers for their efforts and support throughout this difficult period.

L.K. Sellmeyer
President

CONSOLIDATED COMPUTER INC.

Consolidated Balance Sheet

as at December 31, 1975

Assets	1975	1974
	$	$
Current assets		
Cash and term deposits	236,123	232,973
Accounts receivable —		
Trade	1,770,471	2,499,470
Other	680,260	605,851
Notes receivable — trade (note 2)	4,088,966	1,844,044
Inventories (notes 1 and 3)	5,912,838	8,962,203
Due from an officer	30,000	—
Prepaid expenses	179,629	107,125
	12,898,287	14,251,666
Notes receivable — trade (note 2)	5,235,466	3,166,218
Fixed assets (notes 1 and 4)		
Plant, development and demonstration equipment	3,001,079	2,546,260
KEY-EDIT 100 equipment on lease	1,786,830	1,899,149
KEY-EDIT 50 and 1000 equipment on lease	6,081,000	1,254,013
Furniture, fixtures and leasehold improvements	979,727	772,666
	11,848,636	6,472,088
Less: Accumulated depreciation	4,875,071	2,182,048
	6,973,565	4,290,040
	25,107,318	21,707,924

On behalf of the Board

(Signed) E.W. WALLICK, Director
(Signed) L.K. SELLMEYER, Director

CONSOLIDATED COMPUTER INC.

Consolidated Balance Sheet

as at December 31, 1975

Liabilities

	1975	1974
	$	$
Current liabilities		
Bank loan (note 5)	5,175,049	4,300,000
Demand loans (note 6)	21,380,345	10,291,165
Accounts payable and accrued liabilities	2,758,935	2,442,593
Due to Ontario Development Corporation	894,236	796,440
Notes payable (note 2)	4,088,966	1,844,044
Taxes payable	95,485	83,293
Current portion of long-term debt	5,221,000	2,444,000
	39,614,016	22,201,535
Long-term debt, less current portion (note 7)	3,820,825	6,966,976
Notes payable (note 2)	5,235,466	3,166,218
Deferred credit	–	60,000
	48,670,307	32,394,729

Deficit less capital stock

	1975	1974
Deficit (note 9)	25,397,329	12,521,145
Capital stock (note 8)		
Special shares	1,745,042	1,745,042
Common shares	89,298	89,298
	1,834,340	1,834,340
	(23,562,989)	(10,686,805)
	25,107,318	21,707,924

CONSOLIDATED COMPUTER INC.

Consolidated Statement of Operations

for the year ended December 31, 1975

	1975	1974
	$	$
Net sales, rentals and services	15,809,010	15,394,959
Cost of sales, rentals and services	15,907,455	13,825,713
	(98,445)	1,569,246
Expenses		
Marketing, administration and other	8,205,110	5,411,603
Research and development	2,576,845	1,730,050
Government grants	(237,370)	(1,096,137)
Interest on long-term debt	230,121	217,530
Interest on short-term borrowings (net)	2,003,033	802,043
	12,777,739	7,065,089
Loss for the year	12,876,184	5,495,843
Average number of common and special shares outstanding	3,853,171	3,853,171
Loss per share (note 10)	$3.34	$1.43

CONSOLIDATED COMPUTER INC.

Consolidated Statement of Deficit

for the year ended December 31, 1975

	1975	1974
	$	$
Deficit — beginning of year	12,521,145	7,025,302
Loss for the year	12,876,184	5,495,843
Deficit — end of year	25,397,329	12,521,145

CONSOLIDATED COMPUTER INC.

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1975

	1975	1974
	$	$
Source of funds		
Long-term notes payable	2,069,248	2,827,554
Fixed assets	95,440	—
	2,164,688	2,827,554
Use of funds		
Loss for the year	12,876,184	5,495,843
Items not affecting working capital —		
Depreciation	(2,048,022)	(1,009,132)
Deferred credit amortization	60,000	90,000
	10,888,162	4,576,711
Long-term notes receivable	2,069,248	2,827,554
Fixed assets	4,826,987	2,746,928
Long-term debt	3,146,151	2,344,000
	20,930,548	12,495,193
Decrease in working capital	18,765,860	9,667,639
Working capital (deficiency) — beginning of year	(7,949,869)	1,717,770
Working capital deficiency — end of year	26,715,729	7,949,869

March 31, 1976
(Notes 8 and 14(e),
June 4, 1976)

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Consolidated Computer Inc. as at December 31, 1975 and the consolidated statements of operations, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Subject to the completion of:

(a) the conversion of debt to common shares described in note 8,

(b) the arranging of additional financing described in note 14(e), and

(c) the sale of leased equipment described in note 15,

in our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

(Signed) Coopers & Lybrand

Chartered Accountants

CONSOLIDATED COMPUTER INC.

Notes to Consolidated Financial Statements

for the year ended December 31, 1975

1. Accounting policies

Consolidation

The consolidated financial statements include CC Consolidated Computer International, Inc., the wholly-owned United States subsidiary and the non-operating United Kingdom subsidiary.

Foreign exchange

Current assets and current liabilities in foreign currencies have been converted to Canadian funds at the approximate year-end rate of exchange. The resulting gains or losses are included in the consolidated statement of operations.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Fixed assets

Fixed assets are carried at cost, except for KEY-EDIT 100 equipment assembled before December 31, 1971, which is valued at the then estimated fair market value. Depreciation is provided from the date the assets are put into service on a straight-line basis over the estimated useful life, except for leasehold improvements, which are depreciated over the life of the lease.

2. Notes receivable

The notes are receivable over a period of 36 months and are insured by the Export Development Corporation. The company has an agreement with its bankers to finance these notes in equal amounts and on the same terms, to a maximum of $10,000,000. The bank's loans are secured by a collateral floating charge debenture and a pledge and assignment of the notes receivable. The ability of the company to make additional borrowings under this agreement with its banker terminates on July 31, 1976.

3. Inventories

	1975	1974
	$	$
Marketing	2,113,753	589,428
Manufacturing, including work in process	2,933,923	7,302,702
Repair, overhaul and field service	865,162	1,070,075
	5,912,838	8,962,205

Under an inventory purchase agreement an Ontario government agency is purchasing certain inventory components from the company. The company is obligated to repurchase these inventory components at such times as they are shipped to its customers. The value of that inventory at December 31, 1975 which is not included in these financial statements, is $834,203 (1974 – $842,062).

4. Fixed assets

	1975			1974
	Valuation	Accumulated depreciation	Net	Net
	$	$	$	$
Plant, development and demonstration equipment	3,001,079	2,037,183	963,896	1,932,682
KEY-EDIT 100 equipment on lease	1,786,830	1,715,830	71,000	516,072
KEY-EDIT 50 and 1000 equipment on lease (note 15)	6,081,000	809,000	5,272,000	1,211,831
Furniture, fixtures and leasehold improvements	979,727	313,058	666,669	629,455
	11,848,636	4,875,071	6,973,565	4,290,040

Notes to Consolidated Financial Statements (Continued)

for the year ended December 31, 1975

5. Bank loan

Book debts, inventories and a $3,000,000 floating charge debenture have been given as security for the bank loan. The authorized bank line of credit is $5,300,000. The $3,000,000 floating charge debenture is subordinate to the $10,000,000 floating charge debenture referred to in note 2, the $7,000,000 floating charge debenture referred to in note 6 and all floating charge debentures referred to in note 7.

6. Demand loans

Principal amount $	Interest %	Security
7,000,000	8	First floating charge debenture subordinate to the assignments of book debts, notes receivable, inventories, chattel mortgages and lease revenues on the KEY-EDIT 50 and 1000 systems.
1,791,165	11¼	Chattel mortgages on certain KEY-EDIT 50 and 1000 systems on lease in North America and assignment of the lease revenues.
500,000	6¼	Promissory note.
500,000	11¼	Chattel mortgages on certain KEY-EDIT 50 and 1000 systems on lease in North America and assignment of the lease revenues.
740,000	9	Chattel mortgages on certain KEY-EDIT 50 and 1000 systems on lease in North America and assignment of the lease revenues.
3,999,180	prime + ¾	Fixed charge debenture on certain KEY-EDIT 50 and 1000 systems on lease in North America and assignment of the lease revenues.
6,850,000	120% of the U.S. prime	A floating charge collateral debenture in the principal amount of $5,850,000 (U.S.) which is subordinate to all other floating charge debentures; promissory notes (under an authorized line of credit of $10,000,000).
21,380,345		

7. Long-term debt

Principal amount 1975 $	Principal amount 1974 $	Interest (see (B) below)	Description	Security (see (A) below)	Maturity
1,400,000	1,400,000	7 7/16%	Debenture	Floating charge debenture	$ 1976 – 900,000 1977 – 300,000 1978 – 200,000
800,000	800,000	None	Secured Debenture Series Two	Floating charge debenture subordinate to $1,400,000 debenture	1976 – 800,000
500,000	500,000	9%	Junior Secured Debentures Series A	Floating charge debenture subordinate to $1,400,000 debenture and $800,000 secured debenture	20% per annum of principal amount outstanding on December 31, 1976 commencing December 31, 1976
1,769,211	1,883,628	Prime + 1/2%	Junior Secured Debentures Series B	Floating charge debenture subordinate to $1,400,000 debenture, $800,000 secured debenture and $500,000 junior secured debentures, Series A	$ 1976 – 1,769,211

Long-term debt (continued)

Principal amount 1975 $	1974 $	Interest (see (B) below)	Description	Security (see (A) below)	Maturity $
1,200,000	1,200,000	9%	Series One Notes	None	1976 — 900,000 1977 — 200,000 1978 — 100,000
3,372,614	3,627,348	9%	Series Two Notes	None	15% per annum of principal amount outstanding on December 31, 1975 payable on December 31 of each year from 1975 — 1980 and the balance on December 31, 1981
9,041,825	9,410,976				
5,221,000	2,444,000	Current portion			
3,820,825	6,966,976				

(A) All floating charges are subordinate to the $7,000,000 first floating charge debenture and assignments of book debts, notes receivable, security on inventories, chattel mortgages and assignments of lease revenues on the KEY-EDIT 50 and 1000 systems.

(B) In the event of default of repayment of principal on any of the above non-interest bearing debt, interest begins to accrue at 9% per annum.

(C) Under the terms of various debentures, indentures and loan agreements the company:

(a) must maintain consolidated working capital of $2,250,000 (the company has received waivers of this requirement through June 30, 1976).

(b) must meet at least two of the three following conditions:

(i) The sum of acceptable receivables, firm orders to be invoiced within thirty days and cash balances of the company will not be less than $500,000.

(ii) The sum of acceptable receivables, firm orders to be invoiced within sixty days and cash balances of the company will not be less than $800,000.

(iii) The sum of acceptable receivables, firm orders to be invoiced within ninety days and cash balances of the company will not be less than $1,100,000.

(c) may not exceed specified aggregate amounts of capital expenditures and lease commitments in any one year.

(d) may not declare or pay any dividends or make any other distributions to its shareholders or acquire or otherwise redeem any shares of its capital stock or make any prepayments (other than mandatory prepayments) on any junior debt.

8. Capital stock

During the year the company obtained articles of amendment increasing its authorized capital by creating a total of 2,189,186 common shares of no par value ranking on a parity with the then existing common shares of no par value.

	Common shares of no par value		Special shares without par value	
	Shares	$	Shares	$
Authorized.	5,739,186		2,250,000	
Issued and fully paid.	2,631,122	89,298	1,222,049	1,745,042

The non-voting convertible special shares are preferred as to the first 10c per share dividend declared in any one year; thereafter the common shares are entitled to the next 10c of dividend in any one year; and thereafter in any one year the two classes of shares participate equally in dividends declared.

8. Capital stock (continued)

From December 31, 1975 the holders of the non-voting special shares are entitled to convert any or all of the non-voting special shares held by them into common shares of the company on a share-for-share basis. 1,222,049 common shares have been reserved for such conversion.

67,000 common shares have been reserved for the exercise of stock options granted to employees and exercisable at various times to January 14, 1978 at option prices ranging from $1.35 to $2.54 per share.

Subsequent to the year-end the company obtained articles of amendment increasing its authorized capital by creating a total of 14,260,814 common shares of no par value ranking on a parity with the then existing common shares of no par value.

Her Majesty in right of Canada and the Ontario Development Corporation have agreed to convert approximately $21,000,000 of long-term and current debt to common shares of the company at a conversion price of $1.50 per share.

Under the plan of conversion, all loans existing at December 31, 1975, both current and long-term will be retired with the exception of the following:

(a) bank loan (note 5);

(b) series two notes (note 7) in the aggregate principal amount of approximately $1,500,000;

(c) demand loans of approximately $10,000,000, which are to be repaid at the time of closing of the sale of the leased equipment referred to in note 15.

9. Income taxes

At December 31, 1975, the parent company and its subsidiary had approximately $34,000,000 of losses carried forward (including approximately $6,000,000 of excess capital cost allowances) which can be applied against future profits to reduce income taxes.

As such losses, other than those which relate to the excess capital cost allowances, may be carried forward for a maximum of five years, the following amounts must be utilized within the years noted: 1976 — approximately $3,300,000, 1977 — approximately $3,900,000.

10. Loss per share

No dilution has been calculated as the effect would be to reduce the loss per share.

11. Remuneration of directors and senior officers

Total remuneration paid to directors and senior officers as defined by the Business Corporations Act for the year was $412,000.

12. Lease commitments

Total rentals paid for the year ended December 31, 1975 and the approximate total of future commitments (excluding tax and similar expenses) are:

	$
Year ended December 31, 1975	541,088
January 1, 1976 to December 31, 1980	1,768,000
January 1, 1981 to May 31, 1981	100,000

13. Comparative figures

Certain of the 1974 figures have been reclassified to conform with the 1975 presentation.

14. Subsequent events

Subsequent to the year-end:

(a) the company, under a Technical Assistance Agreement issued a total of 700,000 common shares to Fujitsu Limited and Facom Data Terminals Ltd. A value of $350,000 has been assigned to the shares by the directors;

14. Subsequent events (continued)

(b) the company, under the authorized line of credit of $10,000,000 (see note 6) borrowed a further $3,050,000;

(c) the company increased its authorized bank line of credit (see note 5) to $6,300,000;

(d) the board of directors appointed new management;

(e) Her Majesty, in right of Canada has agreed to provide assistance to the company to borrow an additional $5,000,000 for use as working capital.

15. Sale of leased equipment

In co-operation with a federal government agency and a U.S. bank, the company and its U.S. subsidiary are negotiating a non-recourse sale to a leasing company of KEY-EDIT 50 and 1000 equipment on lease with an approximate selling price of $10,000,000. The Federal Government has agreed to insure the financing of equipment up to a sales value of $30,000,000. Of the $10,000,000 of equipment referred to above, approximately $2,000,000 was leased to end users during 1974; the balance was leased during 1975. The proceeds of the sale will be applied against certain of the demand loans (see note 6).

The company has agreed with the purchaser of the equipment that it will service equipment on lease in return for revenue received from lessees under maintenance contracts.

During the year 1975, the company has recorded leasing revenue as income and reflected the cost of the equipment in fixed assets. Such assets have been depreciated at the rate of 20 percent per annum and charged to cost of sales, rentals and services.

Had the company concluded the non-recourse sales agreement referred to above in 1975, the results of operations would have been as follows:

	$
Net sales, rentals and services	25,771,010
Loss for the year	9,657,606

CONSOLIDATED COMPUTER INC.

Registrar and Transfer Agent	The Royal Trust Company	
Bankers	The Toronto-Dominion Bank	
Auditors	Coopers & Lybrand	
Solicitors	Kilgour, World, Flood & Ronson	
Offices and Plant	**Head Office — Canada** 50 Gervais Dr. Toronto, Ont. M3C 1Z3 **Manufacturing Plant** 2421 Lancaster Rd. Ottawa, Ont. K1B 4L5	**Home Office — U.S.A.** 275 Wyman St. Waltham, Mass. 02154
Sales and Service Locations	**Canada** Halifax, N.S. Fredericton, N.B. Quebec City, P.Q. Montreal, P.Q. Ottawa, Ont. Toronto, Ont. London, Ont. Winnipeg, Man. Regina, Sask. Vancouver, B.C.	**U.S.A.** Boston, Mass Hartford, Conn. Philadelphia, Pa. Harrisburg, Pa. Washington, D.C. Columbus, Ohio Cleveland/Akron, Ohio Springfield, Ill. Atlanta/Macon, Ga. Los Angeles, Cal. San Francisco, Cal. New York, N.Y.

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